

Message Text

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SUBJECT: EAST ASIAN ECONOMIC POLICY REVIEW

REF: (A) 77 STATE 299030, (B) 77 PORT MORESBY 0506

1. REF B PROVIDES GENERALLY ACCURATE REVIEW OF EMBASSY'S
E/C ACTIVITY.

2. TRADE AND TRADE PROMOTION. US RANKS THIRD AS A SOURCE
OF PNG IMPORTS ALTHOUGH IS HAS ONLY 7 PERCENT OF THE MARKET.
IN FY77 MUCH OF THE EMBASSY'S WORK WAS DESIGNED TO BUILD
THE POST'S COMMERCIAL CAPABILITY AND TO INFORM PNG BUSINESSMEN
AS TO THE COMMERCIAL SECTION'S EXISTENCE. WE HAVE NOW
REACHED A STAGE WHERE THERE HAS BEEN A SIGNIFICANT INCREASE
IN REQUESTS FOR INFORMATION FROM PNG AND AMERICAN BUSINESSMEN.
IN ADDITION, THE POST IS COMMITTED TO AT LEAST ONE MAJOR
TRADE EXHIBITION IN 1978, AND MARKET RESEARCH IS NEEDED FOR
SEVERAL OTHERS TENTATIVELY PLANNED FOR LATE 1978 OR EARLY
1979.

3. INVESTMENT. GPNG HAS BECOME MORE RECEPTIVE TO FOREIGN
PRIVATE INVESTMENT DURING THE COURSE OF THE YEAR,
ESPECIALLY SINCE THE ELECTION. IT HAS INDICATED ITS
DESIRE TO SIGN AN OPIC AGREEMENT (AFTER FOUR YEARS OF
DELAYS) AND THE EXCHANGE OF NOTES IS EXPECTED TO BE
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COMPLETED IN A FEW MONTHS.

4. CIVIL AVIATION. GPNG HAS LONG WANTED TO RECEIVE
LANDING RIGHTS IN GUAM AND/OR HONOLULU, AND LOOKS FORWARD
TO HOLDING EXPLORATORY TALKS WITH A US TEAM TENTATIVELY
SET FOR EARLY 1978. FOREIGN MINISTER RAISED QUESTIONS
WITH CODEL WOLFF A FEW DAYS AGO ABOUT LANDING RIGHTS,

AND CONGRESSIONAL LETTERS TO DEPARTMENT MAY RESULT.

5. ENDANGERED SPECIES. SOME TYPES OF PROTECTED WILDLIFE ARE IN ABUNDANT SUPPLY HERE, AS FOR EXAMPLE, CROCODILES, WHICH ARE RAISED COMMERCIALY. APPLICATION OF GLOBAL RESTRICTIONS IN SUCH CASES CAN BE UNNECESSARILY RESTRICTIVE IN PNG AND CAN BE COUNTERPRODUCTIVE IN OUR EFFORTS.

6. SECTION D OF REFTTEL B SHOULD BE DROPPED AS WE NOW SEE LITTLE LIKELIHOOD OF SIGNIFICANT EXPORTS FROM EITHER GUAM OR TTPI TO PNG. EXPORTS FROM PNG TO GUAM AND TTPE ARE INCREASING AND EMBASSY WILL CONTINUE TO PROVIDE ASSISTANCE TO PNG BUSINESSMEN INTERESTED IN SUCH TRADE.

7. EMBASSY DOES NOT EXPECT ANY MAJOR ECONOMIC CHANGES IN PNG AFFECTING OUR FUTURE ECONOMIC POLICY, WITH THE POSSIBLE EXCEPTION OF AN OIL FIND.

8. COMMENTS ON 1977 DEVELOPMENTS BEARING ON FUTURE ECONOMIC POLICY OUTLOOK.

A. POLITICAL. ONE POLITICAL EVENT IN 1977 WILL WEIGH HEAVILY ON FUTURE ECONOMIC POLICY OUTLOOK--THE JUNE-JULY NATIONAL ELECTIONS. FISCAL AND MONETARY POLICIES ARE NOT EXPECTED TO CHANGE AS A RESULT, BUT THE CLIMATE FOR FOREIGN INVESTMENT AND FOR PRIVATE BANK LENDING SHOULD CONTINUE TO SHOW IMPROVEMENT. INVESTORS AND LENDERS LIMITED OFFICIAL USE

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WERE WARY AS ELECTIONS APPROACHED, FEARING WHAT PNG'S FIRST ELECTIONS SINCE INDEPENDENCE MIGHT BRING. HOWEVER, THE ELECTIONS WERE ORDERLY AND PM SOMARE AND THE GOVERNMENT COALITION WON A SOLID MANDATE FOR FIVE YEARS OF CONTINUED RULE. TOP LEADERS HERE SAY THAT THE GREATEST ADVANTAGE THEY OFFER FOREIGN INVESTORS IS STABILITY AND THAT STABILITY WAS ENHANCED IN 1977.

JAPAN'S COURTING OF PNG, DEMONSTRATED DURING SOMARE'S VISIT TO JAPAN IN DECEMBER 1977, COULD IMPACT ON PNG ECONOMIC POLICY--IN ONE SENSE DETRIMENTAL TO THE U.S. AND IN ANOTHER SENSE BENEFICIAL TO US. GOJ IS NOW ESTABLISHING WHAT AMOUNTS TO AN AID MISSION HERE TO ADMINISTER THE US \$11 MILLION YEN CREDIT ANNOUNCED DURING SOMARE'S VISIT AND JAPANESE EMBASSY HERE INDICATES GOJ HOPES TO NEGOTIATE AN INVESTMENT GUARANTEE PROGRAM BASED ON OUR RECENTLY NEGOTIATED OPIC AGREEMENT (SEE PARA 2 ABOVE). MANY POLITICAL LEADERS FEAR A HEAVY JAPANESE PENETRATION HERE AND, AS DEPUTY PRIME MINISTER CHAN TOLD CODEL WOLFF THIS WEEK, PNG WANTS A DIVERSIFIED INVESTMENT PORTFOLIO, DIVERSIFIED NOT ONLY WITH RESPECT TO INDUSTRY BUT ALSO, HE EMPHASIZED, NATIONAL ORIGIN. US INVESTMENT WILL BE SOUGHT AND ENCOURAGED, IN PART OBVIOUSLY, TO OFFSET THE

JAPANESE. ON THE OTHER HAND, AS A POSSIBLE QUID PRO QUO
FOR JAPANESE AID, JAPANESE MIGHT BE GRANTED TUNA FISHING
RIGHTS IN PNG WATERS, POSSIBLY MAKING EVEN MORE DIFFICULT
OUR EFFORTS TO GET GPNG TO FALL OFF THE HARD LINE IT TOOK
AT THE SUVA MEETING ON A REGIONAL FISHERIES AGENCY WITH
RESPECT TO COASTAL STATE JURISDICTION OVER MIGRATORY SPECIES.
B. ECONOMIC. GPNG HAS CONTINUED ITS HARD MONEY POLICY.
RESERVES HAVE INCREASED DRAMATICALLY AS THE RESULT OF A
GREATLY IMPROVED BALANCE OF PAYMENTS POSITION. THE KINA
HAS BEEN REVALUED UPWARDS IN AN EFFORT TO EASE THE BURDEN
OF IMPORTED INFLATION. ECONOMIC ACTIVITY HAS INCREASED.
THESE DEVELOPMENTS WILL MAKE PNG MORE ATTRACTIVE TO
POTENTIAL INVESTORS AND POSSIBLY A MORE IMPORTANT MARKET.
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